



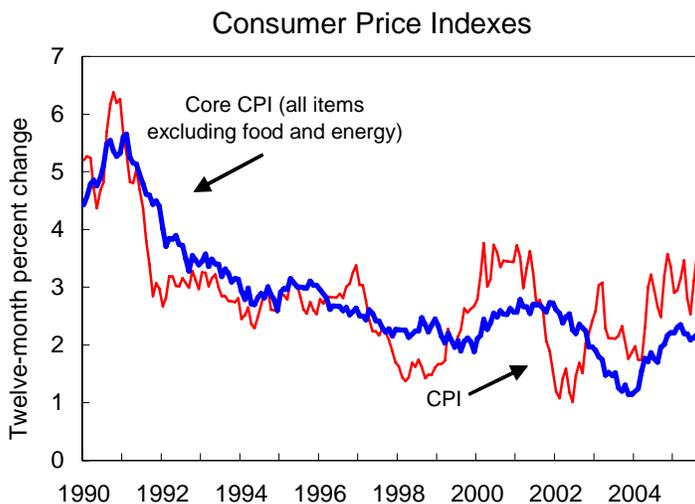
WEEKLY ECONOMIC DIGEST



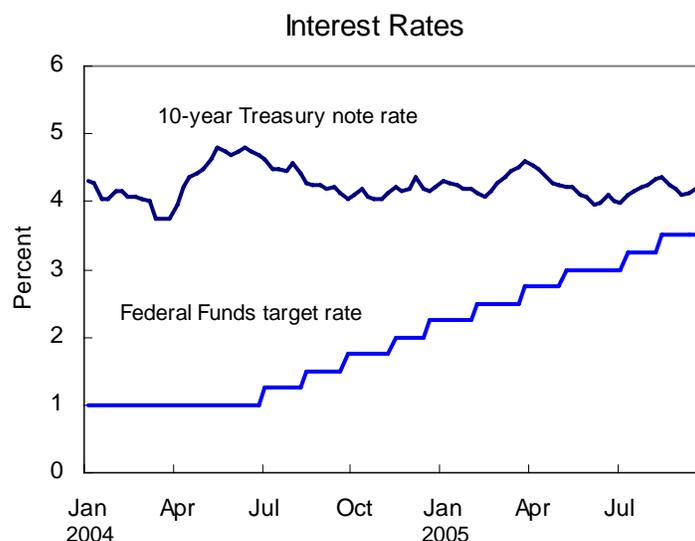
JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

September 20, 2005

Economic Data Just Starting to Show the Effects of Katrina



Source: Bureau of Labor Statistics, U.S. Department of Labor.



Source: Board of Governors, Federal Reserve System.

- **August industrial production was held down by Katrina.** Production in factories, mines, and utilities rose by 0.1 percent last month, the same as in July. The Federal Reserve estimates that the gain would have been 0.4 percent without the end-of-month disruption from Hurricane Katrina.
- **Retail sales drop reflects autos not Katrina.** Driven by a 12.9 percent drop in automotive sales, sales at retail establishments and food services were down 2.1 percent in August, according to the pre-Katrina advance estimate. Excluding motor vehicles and gasoline, retail sales rose by a solid 0.5 percent last month and were 7.0 percent above last year's level.
- **Rising energy prices boosted inflation last month.** A 5.0 percent increase in energy prices, most of it reflecting pre-Katrina developments, contributed to a 0.5 percent jump in the consumer price index (CPI) in August. The largest effects from Katrina will not be seen until the release of the September CPI next month. Energy prices in August were 20.2 percent higher than they were a year ago and the CPI is 3.6 percent higher (see top chart). Underlying inflation, however, remains tame, with the core CPI (which excludes changes in food and energy prices) rising by just 0.1 percent for the fourth consecutive month.
- **Markets believe the Fed is not done raising rates.** Financial markets expect the Federal Reserve to raise its target loan rate for overnight federal funds by $\frac{1}{4}$ percentage point to $3\frac{3}{4}$ percent, if not at the close of its monetary policy meeting today, then at its November meeting. Believing that interest rates were below the level consistent with long-run price stability, the Fed has raised its target funds rate by $\frac{2}{2}$ percentage points since the middle of last year. As yet, however, long-term interest rates have not increased to the same extent as have short-term rates (see bottom chart).

The Economy at a Glance	Aug	Jul	Jun	May	2005 Qtr 2	2005 Qtr 1	2004 Qtr 4	2004 Qtr 3	2004	2003
Economic Activity										
Real GDP (% growth)	—	—	—	—	3.3	3.8	3.3	4.0	4.2	2.7
Industrial Production (% growth)	1.2	1.2	10.0	3.7	1.5	3.6	4.5	2.7	4.2	0
Capacity Utilization (level, %)	79.8	79.8	79.8	79.2	79.4	79.3	78.8	78.2	78.1	75.5
Civilian Unemployment Rate (level, %)	4.9	5.0	5.0	5.1	5.1	5.3	5.4	5.5	5.5	6.0
Housing Starts (thousands)*	n.a.	2042	2045	2041	2038	2083	1973	1974	1950	1854
Real Disposable Personal Income (% growth)	n.a.	0	6.4	2.1	2.0	1.0 [#]	4.3 [#]	2.8	3.1 [#]	2.4
Retail Sales (% growth)	-22.5	23.8	24.6	-3.9	10.8	6.0	9.9	7.0	7.3	4.3
Personal Saving Rate (level, %)	n.a.	-0.6	0	0.5	0.3	0.5	1.2 [#]	1.2	1.5 [#]	2.1
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	6.2	6.2	0	-1.2	4.2	2.4	3.6	1.6	2.7	2.3
Core CPI-U Inflation (% growth)	1.2	1.2	1.2	1.2	2.0	2.6	2.3	1.7	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	2.4	2.4	3.2	4.1	3.9	4.0
Output per Hour (% growth)	—	—	—	—	1.8	3.2	2.5	1.3	3.4	3.8
Financial Markets										
T-bill Rate, 3-month (level, %)	3.44	3.22	2.97	2.84	2.86	2.54	2.01	1.49	1.37	1.01
T-note Rate, 10-years (level, %)	4.26	4.18	4.00	4.14	4.16	4.30	4.17	4.30	4.27	4.01
Federal Funds Rate (level, %)	3.50	3.26	3.04	3.00	2.94	2.47	1.95	1.43	1.35	1.13
Dow Jones Industrial Avg (index level)	10554	10545	10487	10377	10382	10648	10362	10130	10317	8994

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

Upcoming Economic Releases:

- **New Residential Construction: August 2005** [Release: Tuesday, September 20]
- **Federal Open Market Committee Monetary Policy Announcement** [Tuesday, September 20]
- **Existing Home Sales: August 2005** [Release: Monday, September 26]
- **New Residential Sales: August 2005** [Release: Tuesday, September 27]